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ABSTRACT

Information on the General Accounting Office's (GAO) analysis of Pell Grant recipients during the 1986-87 school year is presented. Following an introductory letter, Appendix I looks at profile characteristics of Pell Grant recipients during that year. Findings show that: most were full time, first year, and independent; the majority had little or no adjusted gross income; the majority attended public institutions; the majority were enrolled in programs less than 3 years; attendance costs were less than $5,000 for most recipients; few received the maximum award allowed; few received the maximum 60% share of attendance cost; and almost all who received 60% attended public schools. Appendix II provides information on Pell Grant recipients who did not receive grants in later years (students at four-year schools receiving grants after first year, and students at two-year schools receiving grants after first year). Appendix III focuses on cost estimates for increasing a recipient's cost of attendance to the maximum grant allowed (increasing grants to $2,100 for recipients with no income, increasing grants to $2,200 for recipients with no income, increasing grants to $2,100 regardless of income; and increasing grants to $2,200 regardless of income. Related GAO products (reports and testimonies) are listed. (SM)

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United States General Accounting Office

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Briefing Report to the Ranking Minority Member, Subcommittee on Postsecondary Education, Committee on Education and Labor, House of Representatives

June 1988

PELL GRANTS

Who Receives Them and What Would Larger Grants Cost?

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United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

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June 14, 1988

The Honorable E. Thomas Coleman
Ranking Minority Member
Subcommittee on Postsecondary Education
Committee on Education and Labor
House of Representatives

Dear Mr. Coleman:

On February 2, 1988, we testified before the Subcommittee on our views on the recommendations of a default task force that had been organized by the Subcommittee's chairman. At the hearing you asked us to analyze a proposal for substituting Pell Grants for guaranteed student loans. You were particularly interested in the cost associated with increasing the size and availability of Pell Grants, and how such increases might influence student dropouts.

In later discussions with your office, we agreed to develop (1) a profile of Pell Grant recipients, (2) an estimate of the number of students receiving Pell Grants who failed to complete their programs of instruction, and (3) an estimate of the cost of increasing Pell Grants to recipients who received less than the maximum award.

On May 31, 1988, we met with Subcommittee and other congressional staff members to discuss the preliminary results of our analysis of Pell Grant recipients during the 1986-87 school year. This report provides information on Pell Grant recipient characteristics presented then, as well as additional information, such as the costs associated with potential grant award increases, that we discussed with you on June 9, 1988.

According to the Department of Education, in the 1986-87 school year about 2.8 million undergraduate students received over $3.4 billion in Pell Grants to help pay for their postsecondary education. The average grant was $1,249. The maximum award allowable that year was $2,100, although grants are also limited by law to no more than 60 percent of a student's cost to attend a postsecondary institution.

We conducted our analysis using the Department's computerized file of Pell Grant recipients in school year 1986-87. Although the volume and location of the original records made it impossible to verify these data—which were extracted from a student's application, school records, and Department files—Department officials said this was the best information available. We supplemented our analysis with information obtained

through discussions with Department officials as well as from Department documents.

The estimated costs presented here are designed to provide an order of magnitude assessment of what a major increase in the average award might have cost for recipients in 1986-87. Because they do not take into account potential expanded student eligibility or the impact such a proposal might have on increasing participation, they should not be used to gauge the future budgetary effect of any particular legislative proposal.

Our principal results are summarized below and explained in more detail in the appendixes.

- Most recipients were full-time (65 percent), first-year (50 percent) students who were classified as independent (54 percent), meaning that generally they received no financial support from a parent.
- For 35 percent of the recipients, the Department's records showed no income.
- Few recipients got either the maximum dollar award (17 percent) or the maximum 60-percent of attendance cost (9 percent).
- About one-third of first-year recipients attending 4-year schools did not receive a Pell Grant the following year. In addition, fewer students attending 2-year for-profit trade schools, generally referred to as proprietary schools, received grants in subsequent years than did public and private 2-year school students.

As regards costs, our estimates for increased award amounts were computed by (1) eliminating the 60 percent cost of attendance cap, (2) excluding expected family contributions, and (3) assuming that all recipients were attending school full time during the entire year.

- In school year 1986-87 it would have cost $651 million more to raise the maximum Pell Grant from 60 percent to 100 percent of the cost of attendance for the 35 percent of students reporting no income. In that year the maximum grant was $2,100. If the maximum grant that year had been $2,200 (the maximum amount for the 1988-89 school year), the cost would have been an additional $84 million.
- If the maximum grant in 1986-87 had been increased to the full cost of attendance for all recipients regardless of income, the increased cost based on a $2,100 maximum grant would have been $2.2 billion. Had the maximum grant been $2,200, it would have cost an additional $200 million.

Given the limited amount of time available to complete this work, we did not obtain agency comments on this report. However, we did discuss its contents with agency officials and incorporated their suggestions where appropriate.

As discussed with your office, we will complete our analysis of the 1986-87 recipient files as soon as possible. At that time, we will meet with your staff to determine whether additional reporting on this topic is necessary to meet your needs.

We are sending copies of this report to the Subcommittee chairman, other congressional committees, the Department of Education, and other interested parties. Should you wish to discuss the information provided, please call me on 275-5365.

Sincerely yours,

William J. Gainer

William J. Gainer
Associate Director

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Profile Characteristics of Pell Grant Recipients During the 1986-87 School Year

We developed a profile of Pell Grant recipients' characteristics by analyzing the Department of Education's computerized data base for recipients during the 1986-87 award year. Our analysis was based on the 2,666,563 recipients who attended postsecondary school at only one campus that year. We selected the following variables for our analysis:

- Enrollment status (such as full- or part-time attendance)
- Year in program (first, second, etc.)
- Student status (dependent or independent)
- Adjusted gross income (as defined for federal tax purposes)
- Kind of institution (public, private, or proprietary)
- Program length (in number of years)
- Attendance cost (including tuition, books, room and board)
- Award amount (the amount of the annual grant)
- Grant as a percent of attendance cost

Our preliminary results have shown that:

1. Most recipients are full time, in their first year of school, and classified as "independent," not "dependent" on others for financial assistance. (See p. 7.)

2. Only 15 percent of the recipients had adjusted gross income over $15,000, whereas for 35 percent the data base showed they had no income. (See p. 8.)

3. Most students attended public institutions. (See p. 9.)

4. Most recipients were enrolled in programs that, if attended full time, would generally require less than 3 years to complete. (See p. 10.)

5. Attendance costs for most recipients were under $5,000. (See p. 11.)

6. Only 17 percent of the recipients received the maximum grant of $2,100. (See p. 12.) Of those who received such a grant, more attended proprietary schools than public and private schools. (See p. 13.)

7. Few students (9 percent) received 60 percent of their total cost of attendance. (See p. 14.) Nearly all (96 percent) of those receiving the 60-percent maximum award were enrolled in public institutions. (See p. 15.) Some records showed grants greater than 60 percent, but of these, 99 percent were less than 62 percent—likely due to the rounding of either the grant amount or the cost of attendance.

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Most Recipients Were:

- 65% -- Enrolled Full time
- 50% -- First Year In Program
- 54% -- Independent Status

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Majority Had Little or No Adjusted Gross Income

- 15% -- Over $15,000
- 31% -- $5,001 to $15,000
- 19% -- $1 to $5,000
- 14% -- Zero income
- 21% -- Blank or negative income

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Majority Attended Public Institutions

- **57% -- Public**
- 18% -- Private
- 25% -- Proprietary

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Majority Were Enrolled in Programs Less Than 3 Years

- 48% -- 4 years or more
- 1% -- 3 years but <4 years
- **33% -- 2 years but <3 years**
- **18% -- Less than 2 years**

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Attendance Costs Less Than $5,000 for Most Recipients

- 7% -- Over $7,500
- 20% -- $5,001 to $7,500
- **73% -- $5,000 or less**

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Few Received the Maximum Award Allowed

- **17% -- $2,100**
- 47% -- $1,001 to $2,099
- 36% -- $1,000 or less

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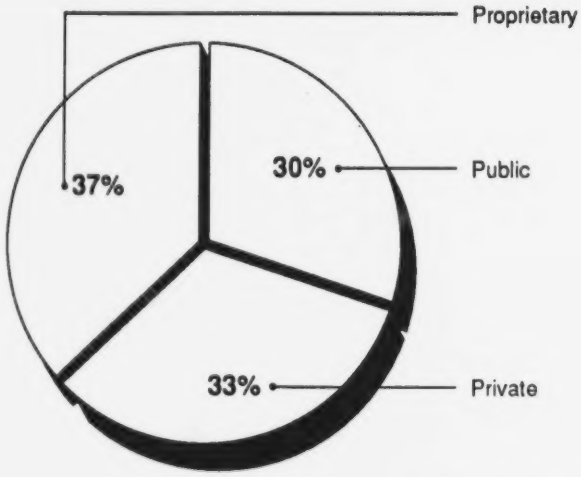
Students Who Received Maximum Award--By Institution



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Few Received Maximum 60% Share of Attendance Cost

- **9% -- 60 percent or greater**
- 41% -- 31 to 59 percent
- 50% -- 30 percent or less

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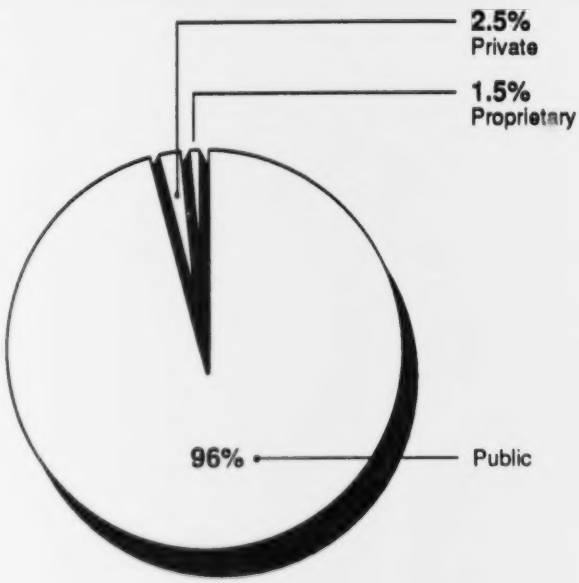
Almost All Who Received 60% Attended Public Schools



Information on Pell Grant Recipients Who Did Not Receive Grants in Later Years

In developing information on students who received a Pell Grant and later failed to complete their program of instruction, the Department of Education gave us preliminary information from a study measuring the persistence of first-year students who received Pell Grants. One portion of that study (1) examined a random sample of 10,000 students—extracted from the Department's Pell Grant recipient data base—who received their first grant during the 1982-83 award year and (2) measured whether they received grants in later years.

This Department study was not designed to allow one to conclude that students who received only a first-year grant dropped out, because the information needed to make such a determination is unavailable in the data base. There are several reasons other than dropping out that may explain why students do not receive grants in later years. For example, a former recipient may still be attending school and may have been ineligible or failed to apply for a grant. However, the Department's study results are thought to be the best information readily obtainable on how often Pell Grant recipients fail to continue receiving grants after a first-year award.

The statistics on page 17 show that there is little difference between 4-year public and private school students in receiving grants beyond the first year. For example, both groups had about 36 percent fewer recipients after that year.

The results for 2-year public and private school students were similar, while attrition for proprietary school students was somewhat higher. As shown on page 18, 2-year public, private, and proprietary schools had about 52 percent, 49 percent, and 62 percent fewer grant recipients, respectively, after the first year.

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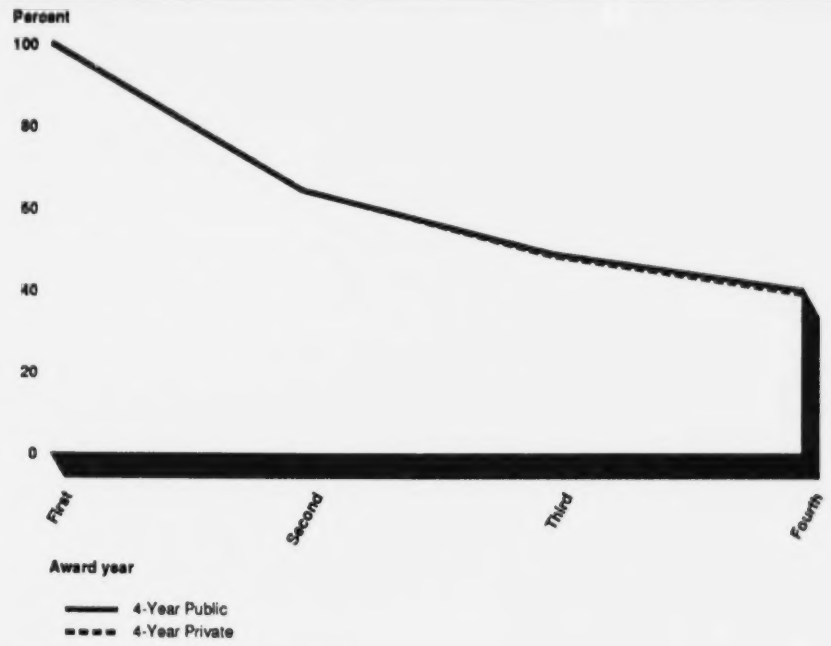
Students at 4-Yr. Schools Receiving Grants After 1st Yr.



Source: Department of Education draft study

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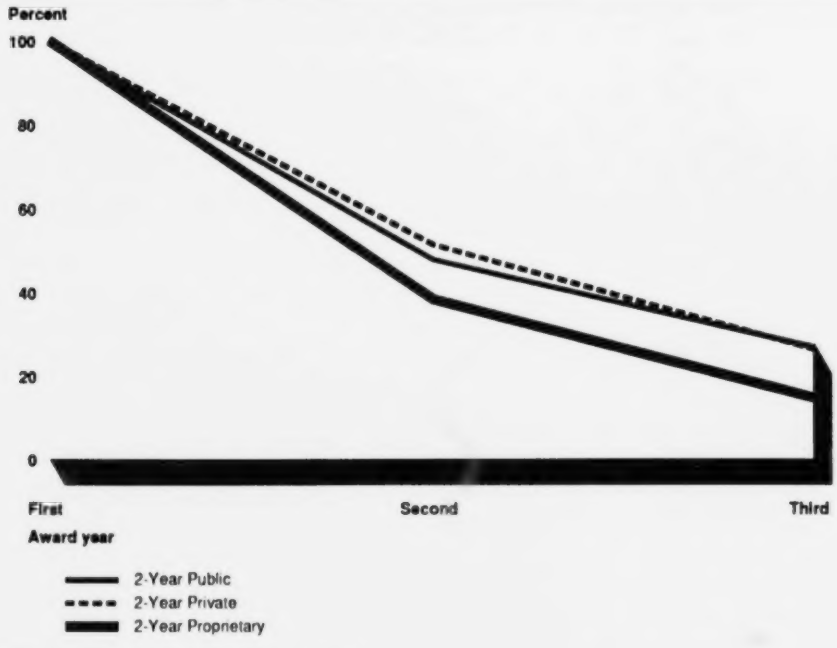
Students at 2-Yr. Schools Receiving Grants After 1st Yr.



Source: Department of Education draft study

Cost Estimates for Increasing a Recipient's Cost of Attendance to the Maximum Grant Allowed

One of the methods recommended by the Belmont default task force to reduce guaranteed student loan defaults was to increase the size and/or number of Pell Grant awards. The data necessary for estimating the cost of substituting grants for loans are unavailable at the national level. We therefore agreed to develop less comprehensive cost estimates based upon increasing grant amounts for certain classes of Pell Grant recipients to 100 percent of the cost of attendance based upon data for the 1986-87 school year.

First we estimated the cost of increasing grants to those who reported having no income on their application. In consultation with Department of Education officials, we defined "no income" for those instances in which students reported zero income or negative income or left the income category blank. We then estimated the cost of increasing grants to all 1986-87 recipients. In developing these estimates, we assumed that all 1986-87 recipients attended school full time for the entire year, and that awards were made regardless of recipients' income or expected family contribution. Both analyses were done using maximum grants of $2,100 and $2,200, the maximum amounts allowed in school years 1986-87 and 1988-89, respectively.

We removed the current 60-percent "cap" on cost of attendance and estimated the funds needed to award recipients maximum grants of $2,100 and $2,200—up to 100 percent of the cost of attendance. For example, a recipient whose cost of attendance was $1,000 has a grant limit of $600. In our analyses, the grant award for this student would increase $400 (to $1,000).

For the 35 percent of students with no income, funding 100 percent of their cost of attendance up to $2,100 would have cost an additional $651 million in the 1986-87 award year. Had the award amount been $2,200, another $84 million would have been added, for a total of $735 million. Students at public schools would receive the largest share of this increased funding, as shown on pages 20 and 21.

Funding all recipients at 100 percent of their cost of attendance up to $2,100 would have cost an additional $2.2 billion in the 1986-87 award year. Had the maximum grant award amount been $2,200, another $200 million would have been added, for a total of $2.4 billion. Students at public schools would again have the largest share of this increased funding, as shown on pages 22 and 23.

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Increasing Grants to $2,100 for Recipients With No Income

Increases Cost by $651 Million

- $346 million (Public)
- $ 64 million (Private)
- $241 million (Proprietary)

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Increasing Grants to $2,200 for Recipients With No Income

Increases Cost by $735 Million

- $383 million (Public)
- $ 79 million (Private)
- $273 million (Proprietary)

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Increasing Grants to $2,100 Regardless of Income

Increases Cost by $2.2 Billion

- $1.4 billion (Public)
- $ .3 billion (Private)
- $ .5 billion (Proprietary)

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Increasing Grants to $2,200 Regardless of Income

Increases Cost by $2.4 Billion

- $1.5 billion (Public)
- $ .3 billion (Private)
- $ .6 billion (Proprietary)

Related GAO Products

Reports

Many Proprietary Schools Do Not Comply with Department of Education's Pell Grant Program Requirements, GAO/HRD-84-17, 8/20/84

Guaranteed Student Loans: Better Criteria Needed for Financing Guarantee Agencies, GAO/HRD-86-57, 7/2/86

Defaulted Student Loans: Guaranty Agencies' Collection Practices and Procedures, GAO/HRD-86-114BR, 7/17/86

Guaranteed Student Loans: Guidelines for Reducing Guaranty Agency Reserves, GAO/HRD-86-129BR, 8/7/86

Defaulted Student Loans: Private Lender Collection Efforts Often Inadequate, GAO/HRD-87-48, 8/20/87

Guaranteed Student Loans: Legislative and Regulatory Changes Needed to Reduce Default Costs, GAO/HRD-87-76, 9/30/87

Guaranteed Student Loans: Analysis of Insurance Premiums Charged by Guaranty Agencies, GAO/HRD-88-16BR, 10/7/87

Guaranteed Student Loans: Potential Default and Cost Reduction Options, GAO/HRD-88-52BR, 1/7/88

Testimonies

The Department of Education's Actions to Collect Defaulted Student Loans, statement of William J. Gainer, Associate Director, Human Resources Division, General Accounting Office, before the Subcommittee on Postsecondary Education, House Committee on Education and Labor, 6/19/85

Proprietary School Compliance with Requirements of the Pell Grant Program, statement of Richard L. Fogel, Director, Human Resources Division, General Accounting Office, before the Subcommittee on Postsecondary Education, House Committee on Education and Labor, 8/1/85

GAO's Views on the Default Task Force's Recommendations for Reducing Default Costs in the Guaranteed Student Loan Program, statement of William J. Gainer, Associate Director, Human Resources Division, General Accounting Office, before the Subcommittee on Postsecondary Education, House Committee on Education and Labor, 2/2/88

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